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The Effect of Leverage and Profitability on Firm Value with Volatility as a Moderating Variable in Indonesian Consumer Goods Companies

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Abstract

This study aims to examine the effect of leverage and profitability on firm value, with stock price volatility as a moderating variable, among Consumer Goods companies listed on the Indonesia Stock Exchange during 2020–2024. Previous studies have reported inconsistent findings regarding the relationships between leverage, profitability, and firm value, indicating the need to consider market conditions. This study employs a quantitative approach using Moderated Regression Analysis (MRA). The sample consists of six Consumer Goods companies, with financial statements and stock price data analyzed using EViews 12. The results show that leverage has a negative and significant effect on firm value, while profitability has a positive and significant effect. Simultaneously, leverage and profitability significantly affect firm value. Furthermore, stock price volatility moderates the effects of both leverage and profitability on firm value. These findings contribute to understanding the role of market conditions in strengthening or weakening fundamental factors affecting firm value.

Keywords: Consumer Goods, Firm Value, Leverage, Profitability, Stock Price Volatility

INTRODUCTION

The increasingly dynamic global economic environment has created more intense business competition across various industrial sectors, including the Consumer Goods sector in Indonesia. This sector plays a strategic role in the national economy because it produces various daily necessities, such as food, beverages, and household products,

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whose demand tends to be relatively stable compared with other sectors. This condition makes the Consumer Goods sector an attractive sector for investors, particularly during the post-COVID-19 economic recovery period. The increase in the number of investors and stock trading activities since 2020 indicates that this sector continues to have long-term growth prospects (Otoritas Jasa Keuangan, 2022; Hidayah, 2023).

However, increasing investor interest is not always followed by a consistent increase in firm value. Firm value, as reflected in stock prices and Price to Book Value (PBV), tends to fluctuate from year to year. This condition indicates that market perceptions of a company are influenced by various factors, both internal financial performance and external market conditions. Firm value is an important indicator reflecting management's success in managing resources as well as investors' perceptions of the company 's future condition and prospects. The higher the firm value, the greater the investor confidence in management's ability to manage the company's assets, capital structure, and risks (Suwardika & Mustanda, 2017).

One of the internal factors that may influence firm value is profitability. Profitability reflects a company's ability to generate profits from its assets. A high level of profitability generally indicates good management performance and promising company prospects. Prihanta et al. (2023) found that profitability has a positive effect on firm value because it reflects management efficiency in managing company assets. However, different results were reported by Anjani and Badjuri (2024), who stated that the effect of profitability on firm value may vary depending on industry conditions and market factors. In addition to profitability, leverage is also an important factor because it indicates the extent to which a company uses debt in its financing structure. Optimal debt utilization may provide tax benefits and increase firm value, whereas excessive leverage may increase financial risk and reduce investor confidence. Oktavia (2025) found that leverage has a negative effect on firm value, while Prihanta et al. (2023) found a positive effect when debt is managed effectively. These differences indicate a research gap that requires further investigation.

In addition to internal factors, market conditions may also influence the relationship between financial performance and firm value. One such factor is stock price volatility, which reflects the level of uncertainty and market risk. Under conditions of high volatility, investors tend to be more sensitive to corporate financial information, meaning that the effects of leverage and profitability on firm value may become weaker or less consistent (Wahyuni & Nugroho, 2023). Empirical phenomena in Consumer Goods companies during the 2020–2024 period also indicate changes in firm value, leverage, profitability, and stock price volatility. These differences in patterns suggest that the relationships among the variables are not always linear, making stock price volatility relevant as a moderating variable (Wulandari & Sari, 2021).

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Previous studies have also reported inconsistent findings. Literasi and Vol (2025) found that profitability has a positive effect and leverage has a negative effect on firm value, while market volatility moderates these relationships. Halim (2024) similarly demonstrated that profitability has a positive effect, whereas leverage has a negative effect on firm value in the Consumer Goods sector. These findings are supported by Chandra et al. (2023), Peng et al. (2022), and Jihadi et al. (2021). However, Silvia et al. (2024) found that profitability does not significantly affect firm value, while leverage has a negative effect. These inconsistent findings indicate that the effects of leverage and profitability on firm value require further analysis by considering market conditions as a factor that may alter the strength of these relationships.

Based on these phenomena and inconsistencies in previous research findings, this study aims to analyze the effect of leverage and profitability on firm value, with stock price volatility as a moderating variable, among Consumer Goods companies listed on the Indonesia Stock Exchange during the 2020–2024 period. The novelty of this study lies in examining stock price volatility as a moderating variable in the relationship between leverage, profitability, and firm value within the Indonesian Consumer Goods sector. This study is expected to provide empirical contributions to the development of corporate finance literature and serve as a consideration for company management and investors in making financial decisions.

Objectives

This article intends

a. To analyze the effect of Leverage on firm value among Consumer Goods companies listed on the Indonesia Stock Exchange (IDX).
b. To analyze the effect of profitability on firm value among Consumer Goods companies listed on the Indonesia Stock Exchange (IDX).
c. To analyze the effect of volatility as a moderating variable on the relationship between Leverage and firm value among Consumer Goods companies listed on the Indonesia Stock Exchange (IDX).
d. To analyze the effect of volatility as a moderating variable on the relationship between profitability and firm value among Consumer Goods companies listed on the Indonesia Stock Exchange (IDX).

LITERATUR REVIEW

Value of the Firm Theory

Value of the Firm Theory explains that firm value represents the present value of expected future cash flows while considering the risks and uncertainties faced by the company (Modigliani & Miller, 1958; Damodaran, 2012). In this study, the theory provides

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the main conceptual foundation for explaining how financial decisions and company performance influence firm value. Leverage reflects the company's financing decisions, profitability represents its ability to generate sustainable earnings, while stock price volatility reflects market uncertainty that may affect investors' valuation of the company.

Leverage

Leverage refers to the extent to which a company uses debt to finance its operations and investments. In this study, leverage is measured using the Debt to Equity Ratio (DER), which compares total debt with total equity. A high DER indicates greater reliance on debt financing and may increase financial risk. From the perspective of Agency Theory, debt can serve as a disciplinary mechanism because fixed obligations encourage managers to use company resources more efficiently. However, excessive leverage may increase financial risk and reduce investor confidence, thereby potentially lowering firm value.

Profitability

Profitability reflects a company's ability to generate profits from the assets it owns and indicates the efficiency of management in utilizing company resources. In this study, profitability is measured using Return on Assets (ROA), calculated as net income relative to total assets. High profitability signals effective and efficient management and may provide positive information to investors regarding the company's future prospects. According to Signaling Theory, strong profitability can increase investor confidence and stimulate demand for the company's shares, ultimately increasing firm value.

Firm Value

Firm value reflects investors' perceptions of a company's financial condition, performance, and future prospects. In this study, firm value is measured using Price to Book Value (PBV), which compares the market price of a share with its book value per share. A higher PBV indicates that investors assign a higher market valuation to the company relative to its book value and generally reflects positive expectations regarding the company's growth prospects.

Stock Price Volatility

Stock price volatility represents the degree of fluctuation in a company's share price over a certain period and reflects the level of risk and uncertainty perceived in the capital market. In this study, volatility is positioned as a moderating variable that may strengthen or weaken the relationship between leverage and profitability and firm value. High volatility indicates greater market uncertainty, which can make investors more

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sensitive to financial information and increase perceived risk. Consequently, the effects of leverage and profitability on firm value may become weaker under highly volatile market conditions.

Agency Theory

Agency Theory explains the relationship between shareholders as principals and managers as agents, where differences in interests may create agency conflicts (Jensen & Meckling, 1976). In the context of this study, leverage can function as a disciplinary mechanism because debt obligations restrict managerial discretion and encourage more efficient resource utilization. Profitability, meanwhile, serves as an indicator of managerial effectiveness in achieving shareholders' objectives. Therefore, effective financial management may reduce agency conflicts and contribute to higher firm value.

Signaling Theory

Signaling Theory explains that companies communicate information to investors through financial and market indicators, allowing investors to assess the company's condition and future prospects. Profitability can serve as a positive signal because high earnings indicate strong operational performance and future earning potential. Leverage may also provide information regarding management's confidence in the company's ability to meet its financial obligations. However, excessive leverage may instead be interpreted as a negative signal because it indicates higher financial risk. Thus, financial information plays an important role in shaping investor perceptions and firm value.

Prior Research and Hypothesis Development

Previous studies generally indicate that leverage and profitability are important determinants of firm value, although the direction and strength of their effects may vary across industries and market conditions. Jihadi et al. (2021) found that profitability had a positive and significant effect on firm value, while leverage had a negative and significant effect. Chandra et al. (2023) also found that leverage significantly affected firm value in Consumer Goods companies, with higher leverage tending to reduce firm value. Halim (2024) reported similar findings, showing that profitability positively affected firm value while leverage had a negative effect. Other research, however, has produced inconsistent findings, indicating the existence of a research gap that warrants further investigation.

Regarding the moderating role of volatility, the study argues that stock price volatility can alter the strength of the relationship between financial performance and firm value. When volatility is high, greater market uncertainty may reduce investor confidence and weaken the effect of leverage and profitability on firm value. Conversely, under

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relatively stable market conditions, financial information may be more effectively incorporated into investors' valuation decisions. Previous research also indicates that volatility can influence the relationship between corporate performance and market outcomes.

Building on the Value of the Firm Theory, Agency Theory, Signaling Theory, and previous empirical findings, the following hypotheses are proposed:

H1: Leverage and profitability simultaneously have a significant effect on firm value.

H2: Leverage has a significant effect on firm value.

H3: Profitability has a positive and significant effect on firm value.

H4: Stock price volatility moderates the effect of leverage on firm value.

H5: Stock price volatility moderates the effect of profitability on firm value.

RESEARCH METHOD

Research Approach

This study employs a quantitative associative causal approach to examine the effect of leverage and profitability on firm value, with stock price volatility as a moderating variable. The research focuses on Consumer Goods sector companies listed on the Indonesia Stock Exchange (IDX) during 2020–2024.

Population, Sample, and Data Source

The population consists of Consumer Goods sector companies listed on the IDX during 2020–2024. Samples were selected using purposive sampling based on three criteria: (1) companies were consistently listed on the IDX during 2020–2024, (2) complete annual financial statements were available, and (3) continuous stock price or return data were available. Six companies met these criteria, resulting in 30 balanced panel observations.

The study uses secondary data obtained from annual financial statements and stock price data from the IDX and Yahoo Finance. Data collection was conducted using the documentation method.

Research Instrument

The research variables consist of leverage measured by Debt to Equity Ratio (DER), profitability measured by Return on Assets (ROA), stock price volatility measured using stock returns, and firm value measured using Tobin's Q.

Data Analysis Technique

Data were analyzed using panel data regression with Moderated Regression Analysis (MRA) through EViews 12. The analysis included descriptive statistics, panel

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model selection using the Chow and Hausman tests, classical assumption tests, and hypothesis testing. The Hausman test indicated that the Fixed Effect Model (FEM) was the appropriate model.

Hypotheses were tested using the F-test, t-test, and coefficient of determination (R^2). The interaction terms between leverage and volatility and between profitability and volatility were used to determine the moderating effect of stock price volatility. Statistical significance was assessed at the 5% level ($p < 0.05$).

RESULT

General Overview of the Research Objects

The objects of this study consist of six manufacturing companies listed on the Indonesia Stock Exchange, namely PT Unilever Indonesia Tbk (UNVR), PT Kalbe Farma Tbk (KLBF), PT Hanjaya Mandala Sampoerna Tbk (HMSP), PT Mayora Indah Tbk (MYOR), PT Indofood CBP Sukses Makmur Tbk (ICBP), and PT Indofood Sukses Makmur Tbk (INDF). These companies operate in the consumer goods, pharmaceutical, food and beverage, and tobacco product sectors, with different business characteristics and scales. Their performance is influenced by external factors such as inflation, purchasing power, exchange rates, raw material prices, and government policies, as well as internal factors such as operational efficiency, business strategies, and profitability. The six companies were selected as research objects because they provide complete financial data for the 2020–2024 period and are relevant for analyzing the effect of *leverage* and profitability on firm value.

Data Analysis Results

The data analysis was conducted through descriptive statistics, panel data model selection, classical assumption tests, hypothesis testing, and moderation analysis. These analyses aim to describe the characteristics of the data, determine the appropriate panel regression model, assess the feasibility of the model, and examine the effects of *Leverage*, profitability, and stock price volatility on firm value.

Table 1. Descriptive Statistics of Research Variables

Variable	Observations	Minimum	Maximum	Mean	Std. Deviation
Leverage (X_1)	30	1,703.00	64,659.00	12,947.77	14,038.66
Profitability (X_2)	30	362.00	2,929.00	1,091.867	639.5656
Volatility (Z)	30	439.00	26,684.00	5,430.367	7,039.326
Firm Value (Y)	30	3.695309	56,791,898	8,401.211	15,843.625

Source: Data Processed Using EViews 12 (2026)

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Based on Table 1, all research variables consist of 30 observations. The results indicate considerable variation among the variables, particularly firm value, which has the highest standard deviation. This shows that the characteristics of the companies varied considerably during the 2020–2024 research period.

Table 2. Panel Data Model Selection

Test	Probability	α (5%)	Selected Model
Chow Test	0.0000	0.05	Fixed Effect Model (FEM)
Hausman Test	0.0000	0.05	Fixed Effect Model (FEM)

Source: Data Processed Using EViews 12 (2026)

Based on Table 2, the Chow Test produces a probability value of 0.0000 < 0.05, indicating that the *Fixed Effect Model* (FEM) is preferred over the *Common Effect Model*. The Hausman Test also produces a probability value of 0.0000 < 0.05, indicating that FEM is preferred over the *Random Effect Model*. Therefore, the Fixed Effect Model is selected as the most appropriate model for this study.

Table 3. Classical Assumption Tests

Test	Indicator/Criteria	Result	Conclusion
Multicollinearity	Correlation < 0.80	X_1–X_2 = 0.542809; X_1–Z = -0.039486; X_2–Z = -0.313674	No multicollinearity
Heteroscedasticity	Probability > 0.05	X_1, X_2, Z, X_1Z, and X_2Z > 0.05	No heteroscedasticity

Source: Data Processed Using EViews 12 (2026)

Table 3, all correlation coefficients among the variables are below 0.80, indicating that the model does not suffer from multicollinearity. The Glejser test also shows that the probability values of X_1, X_2, Z, X_1Z, and X_2Z are greater than 0.05. Therefore, the model is free from heteroscedasticity and fulfills the required classical assumptions.

Table 4. Regression and Moderation Analysis

Variable	Coefficient	t-Statistic	Prob.	Conclusion
Leverage (X_1)	1,039.695	2.419600	0.0257	Positive and significant
Profitability (X_2)	-8,297.091	-3.277886	0.0040	Negative and significant
Volatility (Z)	–	–	–	Output not available

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Variable	Coefficient	t-Statistic	Prob.	Conclusion
$X_1 \times Z$	-15,137,164	-3.409804	0.0029	Weakens the effect
$X_2 \times Z$	1.55E+08	2.399077	0.0269	Strengthens the effect
F-statistic	109.0939	–	0.000000	Significant
R-squared	0.982882	–	–	98.28%
Adjusted R-squared	0.973872	–	–	97.38%

Source: Data Processed Using EViews 12 (2026)

Table 4, *Leverage* has a positive and significant effect on firm value, while profitability has a negative and significant effect. The interaction between *Leverage* and volatility is negative and significant, indicating that volatility weakens the effect of *Leverage* on firm value. In contrast, the interaction between profitability and volatility is positive and significant, indicating that volatility strengthens the effect of profitability on firm value. The F-statistic probability of 0.000000 < 0.05 indicates that *Leverage* and profitability jointly have a significant effect on firm value. The *R-squared* value of 98.28% indicates that the variables in the research model explain 98.28% of the variation in firm value, while the remaining 1.72% is explained by other factors outside the model.

Table 5. Hypothesis Testing Results

Hypothesis	Relationship	t/F-Statistic	Probability	Result
H1	Leverage → Firm Value	2.419600	0.0257	Accepted
H2	Profitability → Firm Value	-3.277886	0.0040	Accepted
H3	Leverage & Profitability → Firm Value	109.0939	0.000000	Accepted
H4	Leverage × Volatility → Firm Value	-3.409804	0.0029	Accepted; weakens
H5	Profitability × Volatility → Firm Value	2.399077	0.0269	Accepted; strengthens

Source: Data Processed Using EViews 12 (2026)

Based on Table 5, the results of the hypothesis testing can be explained as follows:

1. The Effect of Leverage on Firm Value
   Leverage has a positive and significant effect on firm value, with a t-statistic of 2.419600 and a significance value of 0.0257 < 0.05. Therefore, H1 is accepted.
2. The Effect of Profitability on Firm Value

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Profitability has a negative and significant effect on firm value, with a t-statistic of -3.277886 and a significance value of 0.0040 < 0.05. Therefore, H2 is accepted.

3. The Simultaneous Effect of Leverage and Profitability on Firm Value
   The F-test results show an F-statistic of 109.0939 with a probability value of 0.000000 < 0.05. This indicates that Leverage and profitability simultaneously have a significant effect on firm value. Therefore, H3 is accepted.
4. The Moderating Effect of Volatility on the Relationship between Leverage and Firm Value
   The interaction between Leverage and volatility has a negative and significant effect, with a t-statistic of -3.409804 and a significance value of 0.0029 < 0.05. Therefore, H4 is accepted, indicating that volatility weakens the effect of Leverage on firm value.
5. The Moderating Effect of Volatility on the Relationship between Profitability and Firm Value
   The interaction between profitability and volatility has a positive and significant effect, with a t-statistic of 2.399077 and a significance value of 0.0269 < 0.05. Therefore, H5 is accepted, indicating that volatility strengthens the effect of profitability on firm value.

In addition, the R-squared value of 0.982882, or 98.28%, indicates that the variables included in the model explain 98.28% of the variation in firm value, while the remaining 1.72% is explained by other factors outside the research model. Meanwhile, the Adjusted R-squared value of 0.973872, or 97.38%, indicates that the model has a very high explanatory capability.

DISCUSSION

1. The Effect of Leverage and Profitability on Firm Value

The results of this study indicate that leverage and profitability simultaneously have a significant effect on firm value. This finding suggests that financing decisions and the company's ability to generate profits jointly represent important considerations in determining firm value. Leverage reflects the use of debt in a company's financing structure, while profitability indicates the company's ability to manage its assets and generate profits. The combination of these two aspects provides investors with information regarding the company's financial condition, level of risk, and future prospects (Brigham & Houston, 2019). This finding is consistent with the Value of the Firm Theory, which explains that firm value is closely related to expectations regarding future cash flows and the risks associated with the company.

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This finding can also be explained through Signaling Theory. Leverage and profitability provide information that investors can use to assess a company's prospects. A well-controlled debt structure may indicate the company's ability to manage its financing effectively, while high profitability provides a positive signal regarding management's effectiveness in generating profits. The findings are consistent with Jihadi et al. (2021), Peng et al. (2022), and Kornelis et al. (2025), whose studies emphasize the importance of financial factors in determining firm value.

2. The Effect of Leverage on Firm Value

Regarding the effect of leverage on firm value, the analysis indicates that leverage has a negative and significant effect on firm value. This means that an increase in the use of debt tends to be followed by a decrease in firm value. This condition indicates that investors may place greater emphasis on the financial risks arising from high levels of debt than on the potential benefits of debt financing. High leverage increases a company's obligations to pay interest and principal, potentially increasing the risk of financial distress and reducing investor confidence (Sudana, 2020).

From the perspective of the Trade-Off Theory, companies must balance the benefits and costs associated with debt financing. Debt can provide benefits through a tax shield; however, excessive debt beyond the optimal level increases financial risk and may ultimately reduce firm value (Modigliani & Miller, 1963; Brigham & Houston, 2019). This theoretical explanation is supported by the studies of Jihadi et al. (2021), Peng et al. (2022), and Nisrina et al. (2023), which found that leverage influences firm value.

3. The Effect of Profitability on Firm Value

The results indicate that profitability has a positive and significant effect on firm value. This means that the greater the company's ability to generate profits, the higher its firm value tends to be. High profitability reflects the company's effectiveness in utilizing its assets and conducting its operational activities. Such conditions provide a positive signal to investors that the company has the ability to generate returns and has favorable prospects for future growth.

This finding supports Signaling Theory, as information regarding profitability can serve as a signal for investors in assessing the company's financial condition. High profitability increases investor confidence in the company's ability to generate returns, which can encourage greater demand for its shares and consequently increase firm value. This finding is consistent with Jihadi et al. (2021), Peng et al. (2022), and Kornelis et al. (2025), who found that profitability has a positive effect on firm value.

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4. **The Moderating Effect of Volatility on the Relationship between Leverage and Firm Value**

The results demonstrate that stock price volatility moderates the effect of leverage on firm value in a negative direction. This means that volatility strengthens the negative effect of leverage on firm value. When market conditions become more volatile, high levels of debt are perceived by investors as increasingly risky. High volatility reflects greater market uncertainty, causing investors to become more sensitive to the financial risks faced by companies.

Under such conditions, high leverage may serve as a negative signal because companies with substantial debt are perceived as being more vulnerable to financial difficulties. Conversely, under conditions of low volatility, investors may be more tolerant of debt financing because market uncertainty is relatively controlled. This finding is consistent with Tandelilin (2017) and Brigham and Houston (2019), who emphasize risk as an important factor in the valuation of companies.

5. **The Moderating Effect of Volatility on the Relationship between Profitability and Firm Value**

The results indicate that stock price volatility moderates the effect of profitability on firm value in a positive direction. This means that volatility strengthens the positive relationship between profitability and firm value. Under highly volatile market conditions, investors tend to be more selective and place greater emphasis on companies that are able to maintain their profitability. Companies that continue to generate profits despite market uncertainty are perceived as having a stronger ability to withstand risks.

This finding demonstrates that profitability is not evaluated solely based on the amount of profit generated, but also based on the company's ability to maintain its financial performance under dynamic market conditions. The finding is consistent with Jihadi et al. (2021) and Peng et al. (2022), which demonstrate the positive effect of profitability on firm value. It also reinforces the view that market conditions can influence investors' responses to financial information (Nisrina et al., 2023; Kornelis et al., 2025).

Therefore, the novelty of this study lies in demonstrating that stock price volatility functions not only as an indicator of market risk but also as a factor that changes the strength of the relationship between fundamental financial factors and firm value in the Consumer Goods sector in Indonesia. This finding provides an additional perspective on firm valuation by demonstrating that the effects of leverage and profitability cannot be fully understood without considering the market conditions surrounding the company.

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CONCLUSION

This study concludes that leverage and profitability simultaneously have a significant effect on firm value in Consumer Goods companies listed on the Indonesia Stock Exchange (IDX) during 2020-2024. Partially, leverage has a negative and significant effect on firm value, indicating that excessive debt may increase financial risk and reduce investor confidence, while profitability has a positive and significant effect, showing that higher profitability strengthens investor confidence and company prospects. Stock price volatility moderates these relationships by weakening the negative effect of leverage and strengthening the positive effect of profitability on firm value. Based on these findings, companies should manage debt carefully and maintain sustainable profitability, while investors should consider leverage, profitability, and stock price volatility when making investment decisions. OJK and IDX are encouraged to improve market supervision, transparency, and information availability. Future researchers should consider other variables, such as firm size and liquidity, examine other sectors, and extend the observation period for more comprehensive results.

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